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Tax Year-end Planning Tips for Individuals

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INCOME TAX PLANNING

Avoiding the 60% band

Personal allowances are tapered by £1 for every £2 of income for individuals with incomes in excess of £100,000, giving an effective rate of 60% tax above this level. You may take steps to reduce your taxable income by making tax relievable pension contributions, charitable gift aid payments and controlling the timing of the receipt of income (for example dividends from family companies or bonus payments).

Using allowances and reliefs

- Spouses and civil partners. Consider transferring income generating assets so that future income is either tax free or charged at a lower rate.
- High Income Child Benefit charge – if both parents have income less than £50,000, no charge arises.
- Use gift aid donations to reduce your taxable income.

Owner managed businesses

- Draw monies from the business in the most effective manner, balancing earnings and dividends to minimise tax exposure.
- Repay loans from the company within 9 months of the end of the company’s accounting period to avoid 32.5% tax charge.

CAPITAL GAINS TAX (“CGT”) PLANNING

Annual Exemption

- Sell assets where the gain will be covered by the annual exemption before 5 April 2019.
- Defer selling assets until the 2019/20 tax year if you have already used your 2018/19 annual exemption.
- Sell assets standing at a loss to reduce current year gains otherwise taxable.

ENTREPRENEURS' RELIEF ("ER")

Are you likely to sell a business interest, asset or shareholding in the next 12-24 months? ER reduces the rate of CGT to 10% for gains of up to £10m (the lifetime limit). Rules of eligibility for the relief are tightly drawn and require detailed consideration.

Deferring capital gains

- Rollover relief – if you have sold or are planning to sell assets used in your business and buy another qualifying asset within three years (or have bought one in the previous 12 months) the gain may be rolled-over. It is also available to defer the gain on the disposal of any asset where the proceeds are reinvested into a qualifying EIS company.

INHERITANCE TAX ("IHT")

Wills review

You should review your will on a regular basis and on any significant life event. (Marriage or divorce will typically render any pre-existing will as being invalid thereafter). Your financial and family circumstances change over time and it is important that your will is current and reflects your wishes for both succession and tax planning. If you do not have a will then your assets pass according to the rules of intestacy and, contrary to popular belief, where you are married with children these rules mean that the surviving spouse does not automatically inherit your entire estate.

Lifetime allowances and reliefs

- Each person has a nil rate band of £325,000 before IHT is charged at 40%.
- Where the nil rate band is not fully utilised on the first death, then it is passed to the surviving spouse. Therefore, following a second death up to £650,000 may be free from IHT.
- Consider passing the entire estate to the surviving spouse (free of IHT) and subsequently they may make lifetime gifts so that, if they survive for the seven year period, their gift is free from IHT and the transferable nil rate band has been fully preserved.
- Gifts within the annual exemption (£3,000 annually) are immediately free of IHT but can only be carried forward for one year if not used. If you have not utilised your 2017/18 annual exemption you must use your current year's exemption before accessing the prior year.
- Separate gifts of up to £250 each are immediately free from IHT to any number of individuals in a tax year.
- Gifts made in consideration of marriage are also free from IHT up to certain limits based on the donor's relationship to the recipient.
- A potentially valuable exemption is for regular gifts out of excess income.

Planning for death

- Review business assets to ensure they are structured correctly so that business property relief and/or agricultural property relief are maximised.
- Life policies may be taken out to fund an IHT exposure, provided they are written into a trust, the proceeds will not be subject to IHT on death.
- Review your defined benefit pension fund to ensure that there is maximum potential for your beneficiaries to receive your pension fund as tax efficiently as possible.

RESIDENCE NIL RATE BAND (“RNRB”)

This relief was introduced to reduce the burden of IHT on the family home when it passes to a direct descendent. This extra allowance is being phased in with £125,000 currently available in 2018/19 per individual or £250,000 per couple. By 2020/21 the relief will be worth £175,000 per individual or £350,000 per married couple. There is a tapered withdrawal for estates in excess of £2m. The enhanced RNRB is transferable where the second death is after 5 April 2017 irrespective of when the first death occurred. You should review your will to ensure that this relief is available.

Property Tax

Stamp Duty Land Tax (“SDLT”)
The SDLT rate on additional residential properties adds 3% to the relevant rate of SDLT with a maximum of 15% for properties costing in excess of £1.5m. Some reliefs are available where the acquisition is a replacement main home but there may be a cash flow disadvantage where the additional 3% is initially applied despite being reclaimed later.
There may be opportunities to reduce the SDLT burden where either multiple dwellings or mixed use properties are acquired.

Rent a Room Relief
Rent-a-room relief for letting a room in your own home is available up to £7,500 where income is received tax free.

Principal Private Residence Relief (PPR)
- Your main residence should be fully relieved from Capital Gains Tax.
- However, where the grounds exceed half a hectare, there could be a chargeable gain.
- Last 18 months of ownership are treated as occupied even if you are not residing there.
- Lettings relief may also exempt a gain on your former home attributable to periods not covered by the last 18 months.
- Consider an election to nominate which property is your PPR, where you own more than one home.

ENTERPRISE INVESTMENT SCHEMES (“EIS”)

- Income tax relief and potentially CGT deferral is available.
- Up to £1m investment each year (£2m if at least £1m invested in knowledge intensive companies).
- 30% income tax relief.
- 100% of the investment may be carried back to the previous tax year – 2018/19 carried back to 2017/18.
- Seed EIS allows up to £100,000 to be invested in each tax year into a qualifying start-up company with the investment receiving 50% income tax relief. Where the limit has not already been fully utilised in the previous tax year, an investment in 2018/19 may be carried back to 2017/18.